

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00
CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-07
INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06
OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 PA-01 PRS-01
OPIC-03 /103 W

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R 092022Z DEC 76

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 2476

C O N F I D E N T I A L QUITO 8578

E.O. 11652: GDS

TAGS: EINV ENRG PFOR EC

SUBJ: CONVERSATION WITH THE NEW MINISTER OF FINANCE ON
GULF AND ADA

1. BEGIN SUMMARY: I HAD DINNER LAST NIGHT WITH THE NEW
MINISTER OF FINANCE, SANTIAGO SEVILLA, AT THE HOME OF THE
PRESIDENT OF CITIBANK, JAMES WOOD. THE ONLY OTHER PERSON
PRESENT WAS THE NEW TREASURER OF THE NATION, HUGO AMORES,
A CONFIDANT OF THE MINISTER. DURING THE COURSE OF THE
EVENING THE MINISTER RAISED BOTH THE GULF AND THE ADA
PROBLEM. HE EXPRESSED A DETERMINATION TO RESOLVE BOTH
CASES AS QUICKLY AS POSSIBLE AND ON THE BASIS OF A BUSINESSLIKE
APPROACH. GULF WOULD HAVE TO HAVE FIRST PRIORITY GIVEN ITS
ECONOMIC AND POLITICAL IMPORTANCE. END SUMMARY.

2. THIS WAS MY FIRST MEETING WITH THE NEW FINANCE MINISTER.
HE HAS JUST SPENT 3 YEARS IN WASHINGTON AS AN ALTERNATE
DIRECTOR IN THE IMF. HE IS VERY IMPRESSIVE: BRIGHT,
SOPHISTICATED, AND OUTSPOKEN. HE APPEARS TO BE A
"TAKE CHARGE" GUY IN A COUNTRY WHERE IT IS ALMOST A
NATIONAL CHARACTERISTIC TO AVOID MAKING DECISIONS.

3. SEVILLA IMMEDIATELY BROUGHT UP THE GULF PROBLEM.
HE TOLD ME THAT HE HAD BEEN INSTRUCTED BY GEN. DURAN
TO TAKE THE MATTER INTO HIS HANDS. HE SAID THAT THE
COMMISSION HAD COMPLETELY MISHANDLED THE NEGOTIATIONS.

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HE SAID HE WAS DETERMINED TO CARRY THE NEGOTIATIONS

TO A SUCCESSFUL CONCLUSION AS SPEEDILY AS POSSIBLE. WHILE HE WOULD LEAVE THE METHOD OF DETERMINATION OF THE VALUATION OF GULF'S ASSETS TO NEGOTIATIONS BETWEEN THE MINISTRY OF NATURAL RESOURCES AND GULF, HE MADE IT PLAIN THAT HE WOULD KEEP AN EYE ON THAT PART OF THE TRANSACTION. HE SAID THAT BASED ON PRELIMINARY FIGURES WHICH HAD BEEN GIVEN HIM BY NATURAL RESOURCES HE FELT THAT THERE WAS A MINIMUM AMOUNT OF COMPENSATION TO GULF ON WHICH THERE SHOULD BE NO DISAGREEMENT (HE MENTIONED A FIGURE OF ABOUT 120 MILLION DOLLARS, WHICH MAY BE TOO HIGH, BUT I DID NOT CONTRADICT HIM). HE WOULD TRY TO ARRANGE PAYMENT OF THIS AMOUNT AS QUICKLY AS POSSIBLE BY MEANS OF A FOREIGN LOAN. THEN THERE WAS ANOTHER AMOUNT THAT WOULD HAVE TO BE NEGOTIATED OF ABOUT 40 MILLION DOLLARS. HE THOUGHT THAT THIS INCLUDED GULF'S CLAIMS AGAINST THE GOVERNMENT PERHAPS THE DIFFERENCE OVER THE COST OF THE PIPELINE. ON THE LATTER POINT HE GAVE SHORT SHRIFT TO THE SO-CALLED EVALUATION BY A MEXICAN COMPANY, WHICH WAS BASED ON WHAT THE PIPELINE SHOULD HAVE COST RATHER THAN WHAT IT ACTUALLY COST. HE SAID THAT IF THE TWO PARTIES COULD NOT AGREE ON THE DISPUTED PORTION OF THE PAYMENT THROUGH NEGOTIATIONS, THEN HE WOULD BE WILLING TO SUBMIT THE MATTER TO INDEPENDENT ARBITRATION OF SOME KIND.

4. REGARDING THE METHOD, OF PAYMENT, SEVILLA WAS EMPHATIC IN REJECTING GULF'S NOTION OF TYING THE FINANCING TO FUTURE SHIPMENTS OF OIL AS A GUARANTEE TO THE LENDERS. HE SAID THAT THIS WOULD BE POLITICALLY UNWISE. MOREOVER ECUADOR'S CREDIT RATING WAS SO GOOD THAT THERE WAS NO NEED FOR SUCH AN ARRANGEMENT. HE INTENDS TO ARRANGE FOR THE NECESSARY LOAN SIMPLY AS A DIRECT CREDIT WITH THE GUARANTEE OF THE GOVERNMENT. THE CITIBANK PRESIDENT, INCIDENTALLY, AGREED WITH SEVILLA'S VIEW THAT THE GULF PROPOSITION OF USING THE OIL AS A GUARANTEE WAS BOTH UNNECESSARY AND UNWISE.

5. COMMENT. SEVILLA OBVIOUSLY HAS NOT YET HAD TIME TO IMMERSE HIMSELF IN THE SUBSTANCE OF THE GULF MATTER AND THEREFORE HIS FIGURES ARE PROBABLY MOSTLY IMPRESSIONISTIC. HOWEVER, HE IS CLEARLY DETERMINED TO RESOLVE THE MATTER IN A WAY SATISFACTORY TO GULF AND TO TAKE THE POLITICAL

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HEAT THAT MIGHT BE INVOLVED IN SUCH A SETTLEMENT. HE IS CERTAINLY A BREATH OF FRESH AIR. IN THE OTHER HAND, HE MAY NOT YET HAVE CONTROL OF THE SITUATION: THIS MORNING'S PAPER CARRIES ANOTHER DECLARATION BY THE HEAD OF CEPE, COL. MIRANDA, TO THE EFFECT THAT THE GOVERNMENT WILL TAKE OVER GULF'S ASSETS ON DECEMBER 31 REGARDLESS OF WHETHER THERE HAS BEEN A NEGOTIATED SETTLEMENT BY THAT TIME. I SENT A MESSAGE TO THE SUPREME COUNCIL THROUGH

AN INTERMEDIARY CALLING ATTENTION TO THE DISCREPANCY BETWEEN COL. MIRANDA'S STATEMENT AND THEIR ASSURANCES TO ME THAT THE DECEMBER 31 DEADLINE WAS NOT BINDING. THE WORD CAME BACK THAT COL. MIRANDA HAD NOT BEEN PROPERLY "COORDINATED" BUT THAT NOW HE WOULD BE.

6. THE MINISTER ALSO BROUGHT UP THE ADA CASE, WHICH I HAD INTENDED TO RAISE IN ANY EVENT. HE SAID THAT HE KNEW THAT THIS WAS AN OBSTACLE TO CLOSER COOPERATION BETWEEN THE UNITED STATES AND ECUADOR. HE BELIEVED THAT IT SHOULD NOT BE ALLOWED TO FESTER ANY LONGER AND THAT HE THEREFORE INTENDED AS SOON AS HE COULD GET THE GULF MATTER WELL ON THE WAY TO SOLUTION TO TRY TO DO SOMETHING ABOUT THE ADA CASE. HE SAID THAT HE KNEW THAT ONE OF THE PROBLEMS WITH THE ADA MATTER WAS THE STRONG BELIEF IN ECUADOR THAT ADA HAD ACTED ILLEGALLY. ON THE OTHER HAND HE HAD THE IMPRESSION THAT THE RODRIGUEZ LARA GOVERNMENT ITSELF MAY HAVE ACTED UNFAIRLY. HOWEVER, HE SAID, HE WAS NOT AT THIS POINT PREPARED TO JUDGE WHO WAS RIGHT AND WHO WAS WRONG. HE FELT THAT THERE SHOULD BE A STUDY OF THE MERITS OF ADA'S CASE AND IF THIS INDICATED THAT THE ECUADOREAN GOVERNMENT SHOULD COMPENSATE ADA IN SOME WAY, THEN HE WOULD WISH TO DO SO. I BRIEFED HIM ON THE RECENT BACKGROUND OF THE CASE AND SUGGESTED THAT HE LOOK INTO A REPORT THAT WAS SUPPOSEDLY GIVEN TO THE SUPREME COUNCIL BY THE MINISTER OF NATURAL RESOURCES AND THAT ATTORNEY GENERAL AFTER THEIR MEETING WITH ADA REPRESENTATIVES IN JULY.

7. COMMENT. SEVILLA IMPRESSED ME AS BEING QUITE SINCERE IN HIS EXPRESSED DETERMINATION TO SETTLE THESE INVESTMENT CASES RAPIDLY AND EQUITABLY. ON THE OTHER HAND, HE IS RUNNING SOME RISK IN TAKING WHAT IS AN UNPOPULAR POSITION
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POLITICALLY ON THESE MATTERS. THIS COMBINED WITH HIS STRONG PERSONALITY, AND HIS OBJECTIVE OF CURBING THE MILITARY'S PENCHANT FOR RUNNING UP THE FOREIGN DEBT BY FURTHER MILITARY PURCHASES, COULD MAKE HIM A SHORT-LIVED MINISTER. ON THE OTHER HAND, HE SEEMS TO HAVE THE BACKING OF BOTH ADMIRAL POVEDA AND GENERAL DURAN, AND THE VERY FACT THAT HE IS WILLING TO TAKE RESPONSIBILITY AND MAKE SOME TOUGH DECISIONS MAY MEAN THAT HE WILL BOWL OVER THE OPPOSITION. AT ANY RATE HIS APPEARANCE ON THE SCENE APPEARS TO BE A POSITIVE DEVELOPMENT.

8. I HAVE URGED THE LOCAL GULF MANAGER NOT TO REACT PUBLICLY TO STATEMENTS LIKE THOSE BEING MADE BY COL. MIRANDA AND TO ADVISE HIS PRINCIPALS IN CORAL GABLES TO DO LIKEWISE. PUBLIC DEBATE BETWEEN CEPE AND GULF WILL

ONLY MAKE SEVILLA'S TASK MORE DIFFICULT.
BLOOMFIELD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, DISPUTE SETTLEMENT, POLICIES, ECONOMIC CONDITIONS, GOVERNMENT MINISTRIES, NEGOTIATIONS, CREDIT GUARANTEES
Control Number: n/a
Copy: SINGLE
Draft Date: 09 DEC 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976QUITO08578
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760456-0175
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761258/aaaabxvn.tel
Line Count: 171
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by ShawDG>; APPROVED <25 OCT 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CONVERSATION WITH THE NEW MINISTER OF FINANCE ON GULF AND ADA
TAGS: EINV, ENRG, PFOR, EC, US, GULF OIL CORP, (SEVILLA, SANTIAGO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006